REPORT OF STUDY

CONCERNING FINANCIAL OPERATIONS AND POSSIBLE PUBLIC ACQUISITION AND OPERATION OF THE SAN DIEGO TRANSIT SYSTEM

PREPARED FOR

THE CITY OF SAN DIEGO

AUGUST, 1964

ERNST & ERNST
MANAGEMENT SERVICES DIVISION

ERNST & ERNST
1010 SECOND AVENUE
SAN DIEGO, CALIF. 92101
August 21, 1964

The Honorable Mayor and City Council
City of San Diego
San Diego, California

Gentlemen:

In conformance with our Agreement filed as Document No. 669074 with the City Clerk of San Diego, we are submitting herewith one hundred copies of our REPORT OF STUDY CONCERNING FINANCIAL OPERATIONS AND POSSIBLE PUBLIC ACQUISITION AND OPERATION OF THE SAN DIEGO TRANSIT SYSTEM.

This report presents our findings, conclusions and recommendations relating to the questions posed in the referenced agreement with the City of San Diego.

The financial data presented herein was obtained from the records of the San Diego Transit System and was not audited by us. However, such records have been audited regularly by other independent accountants and by representatives of the Public Utilities Commission of the State of California.

During the course of this study, we have met with responsible public officials of communities served by the San Diego Transit System, management of the company, Public Utility Commission staff members, officials of various transit systems in the State, and city officials or ex-city officials of communities that have recently acquired privately owned transit companies. The cooperation we have received has been excellent and very helpful.

In addition, we have made use of the consulting engineering services of DeLeuw, Cather & Company for those portions of the study relating to technical aspects of the transit operation.

Based upon this extensive study, we respectfully submit our report. We will be pleased to meet with you or your representatives to review the contents and answer any questions that may arise. Thank you for this opportunity to be of service to the City of San Diego.

Very truly yours,

Ernst & Ernst

TABLE OF CONTENTS

BRIEF SUMMARY

THE SAN DIEGO TRANSIT SYSTEM

On July 26, 1948 the present owners purchased the San Diego Electric Railway Company from the Spreckels Companies. The name of the Company was immediately changed to the San Diego Transit System and the remaining street car lines were replaced with busses.

The San Diego Transit System provides service within the city limits of San Diego, Coronado, La Mesa, El Cajon, National City, Chula Vista, Imperial Beach and unincorporated area of Lemon Grove. Populations of the various cities served, as reported in the 1960 census, are shown below:

San Diego	573, 224
Coronado	18, 039
La Mesa	30, 441
El Cajon	37, 618
National City	32, 771
Chula Vista	42, 034
Imperial Beach	17, 773
	751, 900

The system currently operates a total of some 278 route miles with an annual service mileage of approximately 7, 895, 000 miles. The Company also provides school service, special charter service and mail carrier service.

The present fares consist of a basic 30 cent fare for any two adjoining zones with an added 8 cent fare for each additional zone traveled. Tokens are good for any two adjoining zones and may be purchased for 6 for $1.50 or 50 for $12.50. School children may purchase special school passes for 15 cents restricted to rides between home and school.

The San Diego Transit System currently owns 249 diesel busses with an average age of approximately eight years. The Company has been awarded many national awards for their excellent preventive maintenance and safety programs. They own a large maintenance terminal in the southeast part of San Diego near 15th Street & G Street and a smaller maintenance terminal in the northwest part of San Diego near Kettner Boulevard and Beech Streets. They also own small parcels of property in National City and Mission Beach. The Administrative Offices are leased in the downtown area.

The present management of the San Diego Transit System has been continuous since 1948.

The charts on the opposite pages graphically present an historical comparison of revenue passengers, average fares and levels of service for the years 1948 through 1963 and the estimated results for the year 1964.

INTRODUCTION

The transit industry throughout the nation has been embroiled in a vicious cycle of meeting rising operating costs by increasing fares and curtailing service. The resultant decrease in patronage starts the cycle all over again. Consequently, faced with rising operating losses and the inability to attract private capital for capital replacements and improvements, private transit systems are being acquired and operated by public agencies. This is evident in such major cities as New York, Chicago, Detroit, Cleveland, Boston, San Francisco, and Los Angeles. In fact, San Diego Transit System is the only large privately owned transit company serving a major metropolitan area in the State of California.

Since the conclusion of World War II public officials across the country have been faced with deciding the extent to which public funds should be committed to provide transit service to their community. Generally, public agencies have concluded that transit service is essential to the overall welfare, prosperity and development of the local economy and have proceeded with public acquisition in the face of public apathy or opposition.

San Diego City officials are faced with this dilemma today and have authorized this study to obtain information to assist them in deciding on a course of action to take regarding the future of public transit in the metropolitan San Diego area.

The area is currently provided with transit service by the privately owned and operated San Diego Transit System. The Company is experiencing a rapidly deteriorating financial situation which is similar to that experienced nationally. The owners have concluded that they can no longer provide adequate transit service without incurring substantial deficits. Therefore, if the required level of transit service is to be maintained for the citizens of San Diego and surrounding areas who cannot drive or who do not own an automobile and are fully dependent upon public transit, some means of public support must be established.

This report presents our findings, conclusions and recommendations relating to the questions posed in our contract with the City of San Diego. The scope of this study does not include consideration or determination of the most appropriate level of transit service that should be provided the San Diego Metropolitan Area.

During the course of this study we have met with responsible public officials of communities served by the San Diego Transit System, management of the Company, Public Utility Commission staff members, officials of various transit systems in the State, and city officials or ex-city officials of communities that have recently acquired privately owned transit companies. In addition we have made use of the consulting engineering services of DeLeuw, Cather & Company for those portions of the study relating to technical aspects of the transit operation. Based upon this extensive study we respectfully submit our report.

PRINCIPAL FINDINGS AND CONCLUSIONS

Question One

MUST PUBLIC OWNERSHIP TAKE PLACE?

The City of San Diego should take the necessary action to acquire the privately owned transit system. Future public transit service in the San Diego Metropolitan Area will depend upon public assistance because the privately owned and operated San Diego Transit System has indicated they do not intend to provide transit service at a continuing financial loss.

Our review and analysis indicates that under continued private ownership, increasing losses will probably be incurred. In prior years the company has been able to make a profit by increasing fares and reducing service. However, since the present basic fare (30 cents) is as high or higher than that charged by comparable systems in other areas it appears that further increases in basic fare may result in a loss of patronage that will more than offset the expected increase in revenue. In addition, service on the existing routes may be at a level which should not be reduced further. Therefore, it does not seem reasonable to expect basic fare increases or further reductions in service to provide a solution to the problem.

Question Two

WHEN SHOULD PUBLIC OWNERSHIP TAKE PLACE?

If a reasonable selling price can be negotiated with the company, the City should act to take over the transit system as soon as possible.

Public acquisition of the transit system combined with a sound program of public relations, competent new management and acquisition of new busses, may result in retention or increase of patronage.

Question Three

HOW MUCH WILL IT COST TO ACQUIRE THE SYSTEM?

The actual price at which the company changes hands will be determined through negotiations between the City and the officers of the company. Discussions during such negotiations usually consider original cost less depreciation, the market value, depreciated replacement cost of the assets, and the present value of future earnings.

We recommend that all busses over 14 years old be replaced immediately. This would require capital expenditures of approximately $2,500,000 (94 busses) during the first two years of operation.

Question Four

WHAT IS THE BEST FORM OF PUBLIC OWNERSHIP?

We recommend the City of San Diego take the necessary action to create two non-profit corporations. One Corporate body would acquire the transit system and lease it to the City. The second corporation would operate the system for the City.

Question Five

WHAT LEGISLATION WILL BE NEEDED?

The City Council should initiate action to have created two non-profit corporations composed of prominent local businessmen and civic leaders to serve as Boards of Directors. One non-profit corporation would acquire the system and lease it to the City. The City would contract with the second corporation to operate the system. Appropriate legal documents for each entity should be filed with the State of California for incorporation. If the City should decide to create a City Transit Authority or a City department to operate the system the following would apply:

- A city transit authority would require a Charter Amendment for formation.

- A city department would require an ordinance for formation.

The creation of a special "transit fund" and the authority to levy a tax for the purpose of providing funds for acquiring, developing, or operating the transit system would require a Charter Amendment.

Question Six

HOW SHOULD THE PURCHASE OF THE SYSTEM BE FINANCED?

We recommend the purchase of the transit system be made by a City owned non-profit corporation which would lease the facilities to the City of San Diego. The corporation would issue 20 year revenue bonds at approximately 3.6% interest backed by the lease of the facilities to the City. The bond issue should be sufficient to cover the cost of acquiring the transit system and the purchase of bus replacements for the first two years. In addition, provision for a special tax and establishment of a "transit fund" should be enacted by Charter Amendment to provide, if required, for operating deficits, future bus replacements, etc.

Question Seven

WHAT WILL THE OPERATING COSTS OF THE SYSTEM BE UNDER PUBLIC OWNERSHIP?

Actual results of operations under public ownership will depend upon future actions involving many interrelated factors. We have estimated a range of costs based upon two assumptions. One assumption estimates costs for operating the system with little or no effort to improve conditions. The other assumption estimates costs and possible results from a program designed to reverse the decline in patronage.

A comparison of the results of the two assumptions indicates the possibility of a substantial deficit for 5 years of operation, if nothing is done to improve conditions. However, if a definite program of improvements is implemented there is a possibility of a favorable fund surplus, before provision for debt service on negotiated acquisition price.

Question Eight

WHAT METHOD OF PERSONNEL ORGANIZATION CAN BEST SOLVE THE LABOR PROBLEMS CONNECTED WITH TRANSITION FROM PRIVATE TO PUBLIC OWNERSHIP AND OPERATION?

The present operating staff, including department heads, would continue to function in the same manner under the proposed non-profit corporation and civil service recognition would not be required. This corporation would be required to furnish a general manager and accounting and legal services.

QUESTION ONE

Question One and related questions

MUST PUBLIC OWNERSHIP TAKE PLACE?

> We have concluded public ownership must take place since the privately owned and operated San Diego Transit System will not continue to provide transit service to the San Diego Metropolitan Area at a loss, indefinitely.

The transit system has been able to maintain a net operating profit from 1948 through 1962 in spite of declining patronage and steadily rising operating costs by:

- Increasing fares to offset the loss of patrons.
- Curtailing service mileage to reduce operating expenses.

However, results of the first six months operations in 1964 indicate a net operating loss. 1963 operations were at an approximate breakeven level. Our projections for continued private operation indicate that these losses will probably continue at an accelerated rate because-

- Continuous fare increases and curtailments of service mileage result in an accelerated patronage decline.
- Fares have been increased to a level whereby any further increases may result in generating less operating revenue than would have been provided under the old fare structure, due to the increased patronage decline.
- Further decreases of service mileage below the present level may result in inadequate transit service in the San Diego Metropolitan Area.

- Equipment replacements will probably not be made.

<u>Would an annual subsidy from the City of San Diego enable the San Diego Transit System to continue operation of the transit system</u>?

Yes, an annual subsidy from the City of San Diego could enable the San Diego Transit System to continue operation of transit service. This of course would depend upon the willingness of the present owners to accept such a subsidy. However, a program of subsidies would be uneconomical and impractical from the City's standpoint. The company would still be under the State Public Utilities Commission regulations covering fares, level of service, etc. A subsidy from the City would be paying certain taxes not levied on a publicly owned transit system and in addition, the City would have to provide for any operating losses as well as a profit on which the privately owned company would have to pay federal income taxes.

<u>What has been the patronage experience of the San Diego Transit System</u>?

The San Diego Transit System has experienced more than a seventy per cent decline in patronage from the base year 1948 as shown in Chart A. In terms of numbers of passengers, the decrease has been from sixty-five million in 1948 to twenty million in 1963 as shown in Table 1.

The following summary shows the average patronage decline per year for selected time periods:

Time Period	Average yearly patronage decline Regular	School
1948 to 1963	-4.8%	-1.0%
1959 to 1963	-5.4%	-6.5%
1961 to 1963	-7.0%	-10.0%
1963 - 1st 6 months) 1964 - 1st 6 months)	-14.4%	-6.6%

The above summary shows that the regular patronage decline is increasing each year. The large decrease in school patronage experience from 1961 to 1963 appears to follow closely the increase in the school fare from 10 cents to 15 cents as of December 11, 1961.

As indicated above by comparing the patronage during the first six months of 1964 to the patronage during the first six months of 1963 the decline in school patronage has decreased to 6.6 per cent which is approximately the trend experienced from 1959 to 1963. The decline in regular patronage has increased to 14.4 per cent. This is an unusually large decrease and must be attributed largely to the basic fare increase from 25 cents to 30 cents as of November 25, 1963. Based upon past experience we would expect this sharp decline to end within the year and resume the 5.4 per cent trend decline experienced from 1959 to 1963, provided additional fare increases are not made effective.

Has the San Diego Transit System experienced an increase in operating costs since 1948?

Operating costs have increased from 39.85 cents per mile in 1948 to 69.94 cents per mile in 1964 as shown in Table 2.

Since labor costs represent approximately 60 per cent of the total operating costs, the primary increase in operating costs can be attributed to the rising labor costs as shown in Table 3. The average employee compensation has increased by 58 per cent over the base year 1948 or an average of approximately 4 per cent per year. The increase in union wages is shown in Table 4 and is summarized below:

	UNION WAGES - (Hourly)					
		Mechanic			Service	
	Operators	A	B	C	A	B
December 31, 1958	2.28	2.54	2.40	2.26	2.08	1.88
December 31, 1963	2.75	3.00	2.84	2.68	2.47	2.23
Average increase per year	4.1%	3.6%	3.6%	3.7%	3.7%	3.7%

Other operating expenses have increased an average of approximately one per cent per year.

In view of the significant patronage decline and increased operating costs, what has been the profit or loss history of the San Diego Transit System?

The San Diego Transit System has had a favorable net income picture from 1948 through 1962 as shown in Table 5. However, in 1963 they incurred a net loss of 37,400 dollars and in the first six months of 1964 they incurred a net loss of 64,350 dollars including a gain made on the sale of busses amounting to 38,500 dollars. The above losses are before giving effect to possible tax refunds.

<u>How has the San Diego Transit System been able to maintain a net income in every year until 1963?</u>

The San Diego Transit System has been able to maintain a net profit from 1948 through 1962 in the face of patronage declines by:

- increasing fares sufficiently to generate the same approximate level of operating revenue.

- curtailing service mileage so as to maintain the operating expenses at the same relative level to operating revenues.

Fare increases and service reductions have been approved by the California Public Utilities Commission to permit the company to make a profit. Fares have ranged from an average of .0931 cents per passenger in 1948 to .3081 cents per passenger in 1964 as shown in Table 6. The current fare structure of 30 cents for any two adjoining zones and 8 cents for each additional zone traveled is among the highest in the country. The fare changes that have taken place since 1948 are shown in Table 7. The company is currently applying to the California Public Utilities Commission for a fare increase of 2 cents for each additional zone traveled.

Transit service mileage has been reduced from approximately fourteen million miles in 1948 to less than eight million miles in 1964. The company has been able to maintain the average cost per vehicle mile slightly below the average revenue per vehicle mile through 1963. However, in the first six months of 1964 the cost exceeded the revenue per vehicle mile even though the basic fare had been increased from 25 to 30 cents. Table 8 shows a detail comparison of cost and revenue per mile, by year.

<u>If fare increases and service reductions, in the past, have permitted the company to offset the declining patronage and rising operating costs, could not this practice continue indefinitely</u>?

Basic fares should not be increased further at this time because:

- The current fare structure is at such a high level that further increases would probably accelerate the patronage decline.

- The fares have been increased to a level where any further increases might result in generating less operating revenue than would have been provided under the old fare structure, due to increased patronage decline.

Service mileage should not be curtailed because:

- Time intervals between busses on most lines are probably as long or longer than those generally accepted as adequate.

- Further reductions in service mileage should be made only as a result of a thorough economic and transit requirement evaluation. Such a study and evaluation might indicate the need for increased service.

The determination of the possible effects of changes of routes on operating revenues and operating expenses is beyond the scope of this study.

The transit industry has developed a formula to use in estimating the increase in operating revenue expected as a result of a fare increase. This formula is based on the premise that each one per cent increase in fare will be offset by a one quarter per cent decrease in patronage. The following summary shows the application of this formula to the latest San Diego Transit System fare increase of 5 cents in November, 1963 and compares the estimated results with the actual results:

	6 Months Ending June 30, 1964	
	Industry Formula	Actual Results
Basic fare before increase	25¢	25¢
Basic fare increase	5¢	5¢
Per cent increase	20%	20%
Decrease in patronage	5.0%	7.4%
Operating revenue	2,355,000	2,324,000

Thus, the latest fare increase resulted in a patronage decrease that was approximately 50 per cent greater than that considered normal by the transit industry.

<u>What would the estimated net operating income of the San Diego Transit System be for the next five years assuming no further service reductions and no additional fare increases</u>?

The following summary shows the projected net operating loss of the San Diego Transit System through 1969. Further detail and analysis is shown in Table 9:

Year	Operating Revenues	Operating Expenses	Net Operating Loss
1964	5, 370, 000	5, 600, 000	230, 000
1965	5, 100, 000	5, 665, 000	565, 000
1966	4, 830, 000	5, 730, 000	900, 000
1967	4, 575, 000	5, 750, 000	1, 175, 000
1968	4, 360, 000	5, 770, 000	1, 410, 000
1969	4, 140, 000	5, 780, 000	1, 640, 000

In order to project operating revenues and operating expenses it is necessary to assume certain limitations and conditions. In estimating operating revenues we have assumed:

- Patronage will decline from 1965 to 1969 at the rate of 5.4 per cent per annum for regular passengers and 6.5 per cent per annum for school passengers (1959 to 1963 average rate of decline). However, 1964 is estimated on the basis of the actual results during the first six months of 1964.

- Basic fare will not be increased above the current level of 30 cents.

- Special bus revenue and advertising will provide approximately the same average annual revenue as generated from 1959 to 1963.

If the rate of patronage decline exceeds 5.4 per cent per annum (1959-1963 average) the company will realize less revenue than estimated. Because the basic fare increase effected in November 1963 resulted in a 50 per cent greater loss of patronage than industry standards would forecast, any estimate of the effect of additional basic fare increases would be highly speculative. It appears that the basic fare may be at or above the highest practical amount (30 cents) now. For these reasons we have not estimated the effect of additional fare increases.

In estimating operating expenses we have assumed:

- Service will continue to be provided at approximately the current service mileage level of 7,895,000 miles.

- Labor cost increases of four per cent per annum.

- Operating tax and other operating expense increases of one per cent per annum.

- The company will not replace existing equipment.

To offset estimated losses the San Diego Transit System is likely to request authority from State Public Utilities Commission to increase fares and/or reduce levels of service.

<u>Are any payments to the affiliated companies included in the operating expenses?</u>

San Diego Transit System has a management contract with the holding company, City Transit, Inc. This contract provides that San Diego Transit System is to pay approximately three per cent of the gross operating revenue to the holding company for management services. This fee has ranged from approximately 175,000 to 200,000 dollars per year and was 179,591 dollars in

1963. The charge is intended to cover the value of the holding company in obtaining credit and favorable prices on purchases, as well as payment for the services provided by four executives. This expense is included in the operating expenses of the company, but is partially disallowed for rate-making purposes by the California Public Utilities Commission. The Commission allows approximately $75,000 annually as expenses for rate-making purposes. This amount is based on their estimate of what the company would have to pay for top management salaries.

The company also pays an annual dividend to the holding company based on net income. The dividends have averaged approximately 150,000 dollars a year, however the dividend was reduced to 30,000 dollars in 1963. This dividend is not included in the operating expenses. The history of the management fee and dividends paid to the holding company is shown in Table 10.

Other expenses which are shared jointly by San Diego Transit System and one or more other affiliated companies are as follows:

Type of Expenses	Allocation Basis
General accounting and clerical	Actual time per employee time record
Secretarial	80 per cent to San Diego Transit System
Maintenance	Actual time per work order
Industrial Relations	80 per cent to San Diego Transit System

Type of Expenses (con'td)	Allocation Basis
Public Relations	70 per cent to San Diego Transit System
Office Rent	66 per cent to San Diego Transit System
IBM lease	85 per cent to San Diego Transit System
Legal retainer	90 per cent to San Diego Transit System

The basis for allocating these expenses have been reviewed and approved by the California Public Utilities Commission for rate-making purposes and have been consistently used for many years. It appears to us that these allocations are reasonable.

Has the California Public Utilities Commission agreed with the San Diego Transit System depreciation basis for rate-making purposes?

The San Diego Transit System management has followed the policy of a ten year life on all coaches and a 2, 000 dollar allowance for salvage. However, the California Public Utilities Commission, for rate-making purposes, has only allowed a service life of twelve years for coaches under six years old and a fourteen year service life for coaches six years and older. A 3, 500 dollar allowance for salvage is made.

If this adjustment were made in 1964 for rate-making purposes we estimate that the California Public Utilities Commission allowance for depreciation would be approximately 442, 000 dollars as compared to the company allowance of 387, 000 dollars. The additional allowance by the California Public Utilities Commission results from using a longer service life which includes busses fully depreciated on the company's books.

What has been San Diego Transit System capital expenditures program in relation to depreciation charges?

The San Diego Transit System has spent over 7, 700, 000 dollars for capital acquisition since 1948 which is approximately 1, 000, 000 dollars in excess of the depreciation allowance. Table 11 shows the detail expenditures by year.

The San Diego Transit System has received many national awards for their safety and preventive maintenance programs. The Company believes that the benefits of their preventive maintenance program is shown by their ability to dispose of fully depreciated busses for amounts in excess of the national average.

As an aid in analyzing the Company's expenditures we prepared a source and application of funds statement which is shown on Table 12.

Has the San Diego Transit System advanced funds to affiliated companies at low interest rates?

The practice of the San Diego Transit System since 1961 is to charge no interest to affiliated companies since the amount is eliminated in the consolidated financial statements at year-end. However, if interest had been charged at 4% per annum, the effect throughout the years would not have materially changed the net income of San Diego Transit System as shown in Table 13.

Has the San Diego Transit System donated funds to charitable organizations?

The San Diego Transit System has followed a policy of making donations to certain charitable or community organizations. In past years this has amounted to approximately 20,000 dollars per year. In addition the company donated 50,000 dollars to the Community Concourse which is being paid annually over a five year period ending in 1965.

QUESTION TWO

Question Two

WHEN SHOULD PUBLIC OWNERSHIP TAKE PLACE?

> Public acquisition of the San Diego Transit System should take place as soon as the City and the company can mutually agree upon a transfer value.

As indicated in the discussion contained in Question One in the previous section, the company will probably experience increasing operating losses. Their only recourse is to seek approval for higher fares and reductions in level of service from the Public Utilities Commission. History has shown that fare increases and service level reductions invariably result in loss of patronage and once a patron has committed himself to some other form of transportation it is difficult to get him back as a customer. Furthermore, it should be noted that a possible reduction in cash items such as the management fee and charitable donations as well as the projected reduction in the non-cash item of depreciation will not improve the company's position materially as shown in Table 9.

Therefore, it appears desirable to take actions designed to reverse the decline in patronage as soon as possible.

Public acquisition of the transit system combined with a sound program of public relations, competent new management and acquisition of new busses may reverse the decline in patronage.

However, the ultimate decision of "When to buy" involves consideration and evaluation of the price at which the company is willing to sell and the factors presented in the preceding Question One and the discussion following in Question Three.

QUESTION THREE

Question Three and Related Questions

HOW MUCH WILL IT COST TO ACQUIRE A SYSTEM?

It is the purpose of this section to present methods of determining a valuation for public acquisition, of a privately owned transit company. A conclusion as to the value of the San Diego Transit System is not presented. The actual price at which the Company changes hands will represent a compromise resulting from negotiations between the company and the city.

What constitutes an appropriate concept of determining value generally depends on the particular purpose for which the value is to be used. Thus it is possible to assign one value for rate-making purposes, another as the basis for assessment of property taxes, and others for purposes of insurance, inheritance taxes, condemnation proceedings, etc. Here, however, we are concerned with the concepts of value which are appropriate for negotiating a purchase price for the San Diego Transit System.

How is the transfer value of a transit system determined?

Several concepts of value are:

- Market Value
- Value to owner
- Original cost less depreciation
- Replacement cost less depreciation

"Market value" means the estimated price at which the business could actually be sold by its present owners to some outside buyers. Thus, in the case of small individual enterprises, it may be possible to infer the value of the enterprise from prices paid in transfers of similar enterprises. However, its usefulness in determining the value of a transit company is very limited due to the scarcity of willing buyers, relatively few sales and the wide disparity in local conditions, size of operations and geographic location.

The concept of "value to owner" involves a determination of the amount the present owners are willing to accept for their transfer of interest. This amount is generally influenced by the expected future earning power of the company.

The "original cost less depreciation" concept is used for rate-making purposes and is generally not applicable to determining transfer value.

The "replacement cost less depreciation" concept is sometimes considered the upper limit of enterprise value.

However, estimated future earnings of the enterprise under public or private ownership, will exert a strong influence upon the ultimate determination of the transfer value.

QUESTION FOUR

Question Four

WHAT IS THE BEST FORM OF PUBLIC OWNERSHIP?

We recommend the City of San Diego take the necessary action to create two non-profit corporations. One corporate body would acquire the transit system and lease it to the City of San Diego. The second corporation would operate the system for the City.

We wish to point out that determination of the proper form of organization under public ownership embraces legal implications requiring evaluation by the City Attorney's staff. Our recommendations are intended to provide a framework for consideration, evaluation and final determination by responsible City officials.

In recommending the type of organization to own and operate the transit system we have considered a number of factors, such as:

- Type of transit service provided and the area served
- Political jurisdiction to initiate acquisition and operate
- Form of financial support from other political jurisdictions
- Authority to establish policies, set fares, levels of service, etc.
- Insulation of public officials and administrators from capricious public pressures
- Legislation requirements
- Financing requirements and practical capabilities

As indicated above, we recommend two non-profit corporations be formed. Discussion of the first corporation which would acquire, own and lease the facilities is presented in questions five and six regarding legislative and financing considerations. The discussion which follows deals with the second entity only which would operate the system and which could be one of the following:

- A non-profit corporation with a Board of Directors appointed by the City Council. The Board of Directors would establish policy on routes, service level, fares, and other administrative matters. This corporation would have no bonding or taxing authority.

- A City Transit Authority with a Board of Directors appointed by the City Council. The Board of Directors would establish policy on routes, service level, fares, and other administrative matters. The fiscal control over bonding and taxing power would remain with the City Council.

- A City Transportation Department with the policy decisions concerning routes, level of service, fares, and other administrative matters under the direct control of the City Manager. Fiscal control usually remains with the City Council.

The operation as a non-profit corporation would appear to be desirable since the City of San Diego is experienced in working with this type of an organization, i. e. San Diego Civic Facilities Corporation which manages the Convention Center, Exhibit Hall and Theatre; San Diego Zoological Society which operates the Zoo.

The City Council could appoint several prominent citizens to serve on the Board of Directors of the operating non-profit corporation. A typical Board generally consists of five local businessmen and civic leaders with the City Manager and City Auditor-Controller serving as ex-officio members. This Board would then apply to the State of California for incorporation as a non-profit corporation. The rights, duties and powers of the Board of Directors would be stated in the bylaws and in the subsequent contract with the City of San Diego for the operation of the transit system. The Board of Directors would generally assume the burden of establishing policies on routes, level of service, fares, and other administrative matters.

The City Transit Authority form of organization would be quite similar to the non-profit corporation. The primary difference would be that the City Transit Authority would be created by Charter Amendment. This Charter Amendment would state the rights, duties, and powers of the Board of Directors.

The operation as a City Transportation Department appears to be less desirable than a non-profit corporation or a City Transit Authority. A disadvantage is that the City Council and City Manager might be required to devote considerable time in establishing routes, levels of service, fares and other administrative policies.

Based upon our discussions with the various city administrators within the transit area, it appears that they would not be interested in supporting an independent transit agency. However, there was a definite interest in the possibility of contracting for some level of transit service. This would enable each city to decide on the amount of service needed and to weigh this against the contractual cost.

During the course of this study we talked to representatives of a number of public agencies which are currently operating transit systems under various organizational forms. It is apparent there is no one form which will best solve the transit problem. Each form has certain advantages and disadvantages which must be considered in relation to the problems or circumstances that exist in each area. For example, in Sacramento the transit system is operated as a city transit authority, in Fresno and Alameda-Contra Costa the transit system is operated as a transit district, and in Long Beach the transit system is operated under a non-profit corporation which is owned by the City of Long Beach and provides service to areas outside the City on a contractual basis.

Following is a brief description and discussion of the advantages and disadvantages for the various types of public agency forms we have considered. The advantages and disadvantages discussed are based upon consideration of the present type of transit service provided and the area served.

Non-profit Corporation

A non-profit corporation could be organized pursuant to the general non-profit corporation law of the State of California. All of the authorized shares of capital stock would be issued to the City of San Diego or its designated trustees. The City of San Diego would then enter into a contract with the non-profit corporation for the operation of the transit system. The non-profit corporation would apply for state franchise tax exemption and federal income tax exemption.

The policy decisions concerning routes, level of service, fares and other matters would be made by a Board of Directors appointed by the City Council. This Board would normally consist of responsible local businessmen and civic leaders.

City Transit Authority (Company, Agency or such other title)

A city transit authority would be a semi-autonomous agency of the City of San Diego. The authority could be created by an amendment to the City Charter which would require a majority vote of the people.

The policy decisions concerning routes, level of service, fares and other matters would be made by a Board of Directors appointed by the City Council.

The primary disadvantage would be the time and expense required to obtain voter approval of a Charter Amendment.

Municipal Department

The transit system could be owned by the City of San Diego and operated as a public transportation department. The administrative control would generally be under a transit director or special transit utility board who would be directly responsible to the City Manager.

The City Council might be called upon to devote considerable time in making decisions involving routes, level of service, fares, and other administrative matters.

The major advantage would be the ability to operate the transit system by Council ordinance only.

State Authorized Transit Authority

A state authorized transit authority is a public agency of the state and as such is not officially connected with the city or county. The authority is created by an act of the State Legislature without a vote of the people within the proposed transit area.

A disadvantage of this form of agency is that appointments to the Board of Directors are made by the State, which may result in a lack of local responsibility and control.

The creation of an independent authority would relieve the City of San Diego officials from the financing and administrative problems connected with a transit system. However, the problems would still exist and their successful solution would depend upon the public's willingness to provide the necessary financial backing required to acquire and operate the transit system. It is possible to place a provision in the legislation which would lower the two-thirds vote required for General Obligation fund passage to 60% or lower depending upon legislative approval.

In discussions and interviews with various people in the area it appears that an independent authority might find it difficult to obtain support in the San Diego area at this time.

Transit District

Under the Public Utilities Code of the State of California any city or cities with or without unincorporated territory may organize and incorporate as a transit district. The district is created by a vote of the electorate within the proposed district. The Board of Directors are either appointed or elected from the district.

Aside from the ability to insure local control of the Board, our comments regarding the State Authorized Transit Authority, discussed above, apply to the Transit District also. Establishment of the District would require state legislation and voter approval.

County of San Diego

Discussion with a responsible County official indicated the County would not be interested in acquiring or operating the transit system.

Municipal Joint Powers Agreement

The general law of the State of California permits public agencies to enter into joint ventures for their mutual benefit. In this case the joint venture would be the ownership and operation of a transit system. Additionally the law provides that there must be one member of the joint venture who would own and operate the transit system with the other members participating on the basis of a joint powers agreement. Since the City of San Diego is the largest user of transit service they would own and operate the system as a city department. We were unable to discover interest on the part of other community officials in assuming joint responsibility for acquisition or operation of the transit system.

Public Ownership With a Lease-Back Private Operation or Public Lease and Operation of a Privately Owned Transit System

This is essentially a financial consideration as some form of public agency would have to be designated to act as lessor or lessee of the transit system. An undesirable feature of a public agency acting as lessee would be the probable high rate of return which the lessor would require. Acting as lessor the public agency would in effect be granting a subsidy to the private operator. There does not appear to be any advantage, considering other possibilities, to these leasing arrangements.

QUESTION FIVE

Question Five

WHAT LEGISLATION WILL BE NEEDED?

To accomplish the recommendations set forth in this report, the City Council would have to initiate or take the necessary actions. State legislation would not be required, however, the City Attorney should evaluate the legal implications and procedures set forth below.

The City Council should act to:

1. Have created a non-profit corporation for the purpose of acquiring for the City, the privately owned transit system. This corporation should have the authority to negotiate a purchase price with the present owners, arrange for revenue bond financing to purchase the system and to provide for leasing the facilities to the City of San Diego.

2. Have created a second non-profit corporation for the purpose of operating the transit system. This corporation should have the authority to determine routes, schedules, fares, level of service and enter into contracts with other municipalities and political jurisdictions to provide transit service and to perform such other duties required for operation of a transit system by the City.

3. Amend the City Charter to levy and collect a special tax on all taxable property to be deposited in a special "transit fund". This levy may be restricted to, say five (5) cents on each 100 dollars of the assessed value of all real and personal property in the City. The fund would be used to meet any obligations undertaken by the City to acquire, develop, operate or maintain a public transit system or to provide for, or to assist a non-profit corporation to provide such a system.

The City of San Diego should obtain the services of prominent local businessmen and civic leaders to serve as the Boards of Directors of the proposed non-profit corporations. When the Boards of Directors are formed the appropriate legal documents for each entity should be filed with the State of California for incorporation as a non-profit corporation. This should include an application for franchise tax exemption. Also, application for federal income tax exemption should be filed with the Internal Revenue Service immediately following incorporation. The powers, duties, and responsibilities of the Boards of Directors should be clearly defined and stated in the corporate bylaws. The Boards of Directors should not have the power to obligate the City Council to impose additional taxes.

If the City should decide to create a City Transit Authority or a City department to operate the system the following would apply:

- A City Transit Authority would require a Charter Amendment for formation. Such amendment would define the powers, duties, and responsibilities of the Authority and would require a majority vote of electorate for passage.

- The operation as a City Transportation Department would require an ordinance.

QUESTION SIX

Question Six

HOW SHOULD THE PURCHASE OF THE SYSTEM BE FINANCED?

> We recommend the purchase of the transit system be made by a City owned non-profit corporation who would lease the facilities to the City of San Diego. The corporation would issue 20 year revenue bonds at approximately 3.6% interest backed by the lease of the facilities to the City. The bond issue should be sufficient to cover the cost of acquiring the transit system and the purchase of bus replacements for the first two years. In addition, provision for a special tax and establishment of a "transit fund" should be enacted by Charter Amendment to provide, if required, for operating deficits, future bus replacements, etc.

The cost of purchasing the transit system will be determined by negotiation as discussed in Question Three.

In addition to providing funds for the acquisition of the system, initial financing should provide funds for replacement of some 94 busses (over 14 years old) during the first two years. At a cost of 30,000 dollars a bus, less proceeds from the sale of 111 old busses (including excess spares) at 3,000 each, this cost would amount to approximately 2,500,000 dollars.

There are, of course, a number of different ways to finance the acquisition of the transit system. Our recommendations are based upon the criteria that the financing should be both practical and economical.

Non-Profit Corporation Financing

We envision the modus operandi to be essentially as follows:

CORPORATION ONE

1. Negotiate with the owners of the transit system for its purchase.

2. Arrange to purchase new busses for the replacement recommended for the first and second year.

3. Lease the acquired system to the City of San Diego. The annual rental payable under the terms of the lease must at least equal the amount of the annual debt service requirement of the revenue bonds to be issued by the non-profit organization and the lease agreement should contain a statement to the effect that the rental payment is not in excess of a fair rental value.

4. Sell revenue bonds to cover the cost of the acquisition of the system. Under this plan these would appear to be tax exempt bonds and should have a ready sale at approximately 3.6% interest because the lease payments by the City would guarantee the annual debt service requirements.

The revenue bond underwriters would probably require a legal opinion. An Internal Revenue Service ruling on the proposed tax-exempt revenue bonds would be advisable.

The annual rental payment by the City would be $86,000 the first year (reduced by $1,800 each year thereafter) for each $1,000,000.00 of revenue bonds issued by the non-profit organization. This is based upon the presumption that bonds would be 20 year bonds carrying an interest rate of 3.6%. (Refer to Table 14)

CORPORATION TWO

1. Contract to operate the system for the City.

2. City would cover operating deficits, as required, and provide funds for bus replacements after the second year. Funds generated from operations could be used by the City to meet lease payments or other obligations of the transit system.

TRANSIT FUND

To provide the funds to cover bus acquisitions after the first two years and possible operating deficits, we suggest a Charter amendment be enacted to levy and collect a special tax to be deposited in a special "transit fund". A 5 cent levy, based upon the 1963-1964 assessed valuation of one billion dollars would provide approximately 500 thousand dollars annually.

In lieu of setting up a "transit fund", operating losses could be financed by a current budget appropriation to the extent that the City Charter tax rate limit for general purposes would not be exceeded. Based upon the 1963-64 fiscal year this amount would be limited to what an 18.3¢ tax rate would produce (approximately $1,800,000) when applied to the current assessed valuation.

The purchase of the transit system will affect the budget of the City adversely by loss of the following revenue now being paid by the privately owned transit system:

	Based on 1963
Franchise	$ 96,000
General Property Tax (City's share)	9,000
In-Lieu Tax on Busses (City's share)	1,500
	$106,500

SOME OTHER FINANCING METHODS CONSIDERED

A number of the financing possibilities discussed in this section could be used in combination to provide the necessary funds for the acquisition as well as the annual operating and capital replacement requirements.

Purchase by City Employees Retirement Fund and then leased to the City on a lease purchase agreement

There is precedent established for this type of financing in the Centre City projects.

The Board of Directors of the Retirement Fund would have to be assured that the investment in the transit system would be sound and that all of the commitments of the lease purchase agreement with the City would be met.

The Retirement Fund would not be liable for property taxes or in-lieu taxes. See Section 31452 of the Government Code.

The annual rental payment by the City under this plan would be $100,000.00 the first year, (reduced in the amount of $2,500.00 each year thereafter,) for each $1,000,000.00 of investment in this project by the Retirement Fund. (Refer to Table 15)

The lease agreement should include a statement to the effect that the amount paid annually by the City is not in excess of a fair rental value.

Lease equipment from private ownership for public operation, with purchase option.

The desirability of this type of financial arrangement would depend entirely upon the terms of the agreement and the willingness of the owners to accept such a plan. Title to the property and equipment would remain with the present owners until the purchase option was exercised. Because of the situation of private ownership and City operation the question of liability for property taxes and in-lieu taxes should be referred to the City Attorney.

If satisfactory terms could be arrived at between the City and the Transit System owners this could be a means of acquiring the system.

The lease agreement would have to contain a clause that the annual rental payment did not exceed the fair rental value.

With General Obligation Bonds

The City Charter provides that the bonded indebtedness for municipal improvements other than those for the development, conservation and furnishing of water shall not exceed 10% of the assessed value of all real and personal property. There would be no question about exceeding the "Legal Debt Margin" if general obligation bonds should be authorized and issued at this time.

The Constitution of the State of California requires that a two-thirds majority of the qualified electors authorize the issuance of general obligation bonds. This two-thirds majority may not be easy to obtain when you consider that many of the qualified electors are not users of the transit system facilities. The City would have to launch an intensive "bond election" campaign to inform the voters of all the advantages which would accrue to "users" and "non-users" alike. This would require a great amount of planning and expenditure of money for a possible special election.

If the City Council decides that the acceptable "organization form" for public ownership and operation should be a state Authorized Transit Agency, the enabling act could provide for less than a two-thirds majority. There is precedent for a sixty per cent majority which would be much easier to obtain. Many public agency bond elections fail to meet the two-thirds majority by only a few percentage points.

If the acquisition was to be financed by the sale of general obligation bonds the City would have to levy a tax sufficient to produce $82,000.00 the first year, (reduced by $1,600.00 each year thereafter) for each million dollars of debt. This is based upon the presumption of 20 year bonds at a 3.2% interest rate. (Refer to Table 16)

With Capital Outlay Fund

This plan has only limited availability for use in the purchase of the plant and equipment of the transit system.

If the City Attorney would rule that a transit system is a "permanent public improvement" within the meaning of Section 77 of the City Charter, the purchase of the transit system could be financed through the Capital Outlay Fund. From a practical standpoint, the use of the resources of the Capital Outlay Fund exclusively for the purchase of the system would not only require the acceptance by the present owners of a time payment plan over a specified number of years but might also require the authorization of the voters by a two-thirds vote of the qualified electors. This voter approval would be necessary because of the Constitutional provision which prohibits local governmental agencies from incurring obligations in excess of the revenues provided in the current year without a two-thirds majority vote of the qualified electors (Section 18 of Article XI of the Constitution) unless the annual payments would be rentals. A statement to the effect that the amount of the rental payments is not in excess of a fair rental value would have to be included in the agreement.

The interest factor on the outstanding balance would be at least 6%.

We do not recommend the use of this plan.

With payments to be made with revenue from property tax and/or increased motor vehicle in-lieu taxes.

The same restrictions and limitations apply to the use of this method of financing as we stated in relation to the "Capital Outlay Fund" method.

The maximum amount available annually would be the amount which could be produced by the tax rate difference between the current rate total for general purposes and the Charter maximum of $1.34 per $100 of assessed valuation.

Additional tax revenue could be provided by a Charter amendment which would specify a maximum rate to acquire, develop, operate or maintain a public transit system. This was done by the City of Long Beach.

QUESTION SEVEN

Question Seven

WHAT WILL THE OPERATING COSTS OF THE SYSTEM BE UNDER PUBLIC OWNERSHIP?

> The operating costs of the system under public ownership can reasonably be expected to fall within an estimated range of costs. Actual results, of course, will depend upon future actions involving many interrelated factors such as, economic conditions, management of the business, public relations and public image created, new equipment, fares, level of service, etc.

To present a picture of these possible operating results we have prepared two estimates, one based upon a minimum effort to improve operations (Assumption One - Table 17) and the other based upon certain definite programs designed to reverse the decline in patronage (Assumption Two - Table 18). The referenced tables show the assumptions made for each projection and the estimated funds generated from operations is presented graphically on Chart G following Table 18.

Following is a comparison of the estimated funds generated under both estimates:

Year	Comparison of Funds Generated Table 17 Assumption One (No improvement)	Table 18 Assumption Two (Improvement program)
1965	335,000	580,000
1966	(20,000)	600,000
1967	(370,000)	615,000
1968	(675,000)	580,000
1969	(990,000)	545,000

The primary savings in operating costs under public ownership would be the elimination of certain operating taxes. These taxes amounted to approximately $254, 000 in 1963 as shown below:

Real Estate and Personal Property Taxes	$ 37, 000
Vehicle License Fees	72, 000
City Franchise Taxes	105, 000
Federal Fuel and Excise Taxes	35, 000
State Franchise Tax	5, 000
	$ 254, 000

Federal income taxes would also be eliminated, however, the public entity would be required to pay State fuel taxes.

We have prepared Table 19 - Fund Requirements, for the purpose of showing the application of funds generated from the two assumed operating conditions and their relation to total known fund requirements. In addition, we have provided columns for entering debt service requirements for the acquisition of the system which can be extended to show the total accumulative fund requirement or surplus.

QUESTION EIGHT

Question Eight

WHAT METHOD OF PERSONNEL ORGANIZATION CAN BEST SOLVE THE LABOR PROBLEMS CONNECTED WITH TRANSITION FROM PRIVATE TO PUBLIC OWNERSHIP AND OPERATION?

> The present operating staff, including department heads, would continue to function in the same manner under the proposed non-profit corporation. This corporation would be required to furnish a general manager and accounting and legal services.

The San Diego Transit System has collective bargaining contracts for operators, mechanics and servicemen. Union contracts are assignable and will expire as follows:

- Amalgamated Transit Union(operators)	May 31, 1965
- I. B. E. W. (maintenance)	September 30, 1965

General administrative and clerical employees are non-union.

The proposed non-profit corporation will be required to obtain the services of a general manager, a controller, and possibly an attorney. The services of the City Attorney's office may possibly be utilized in lieu of hiring a staff attorney. It is anticipated that all other employees, including department heads, of the San Diego Transit System would transfer to the public entity which would not require civil service recognition.

CHARTS

CHARTS

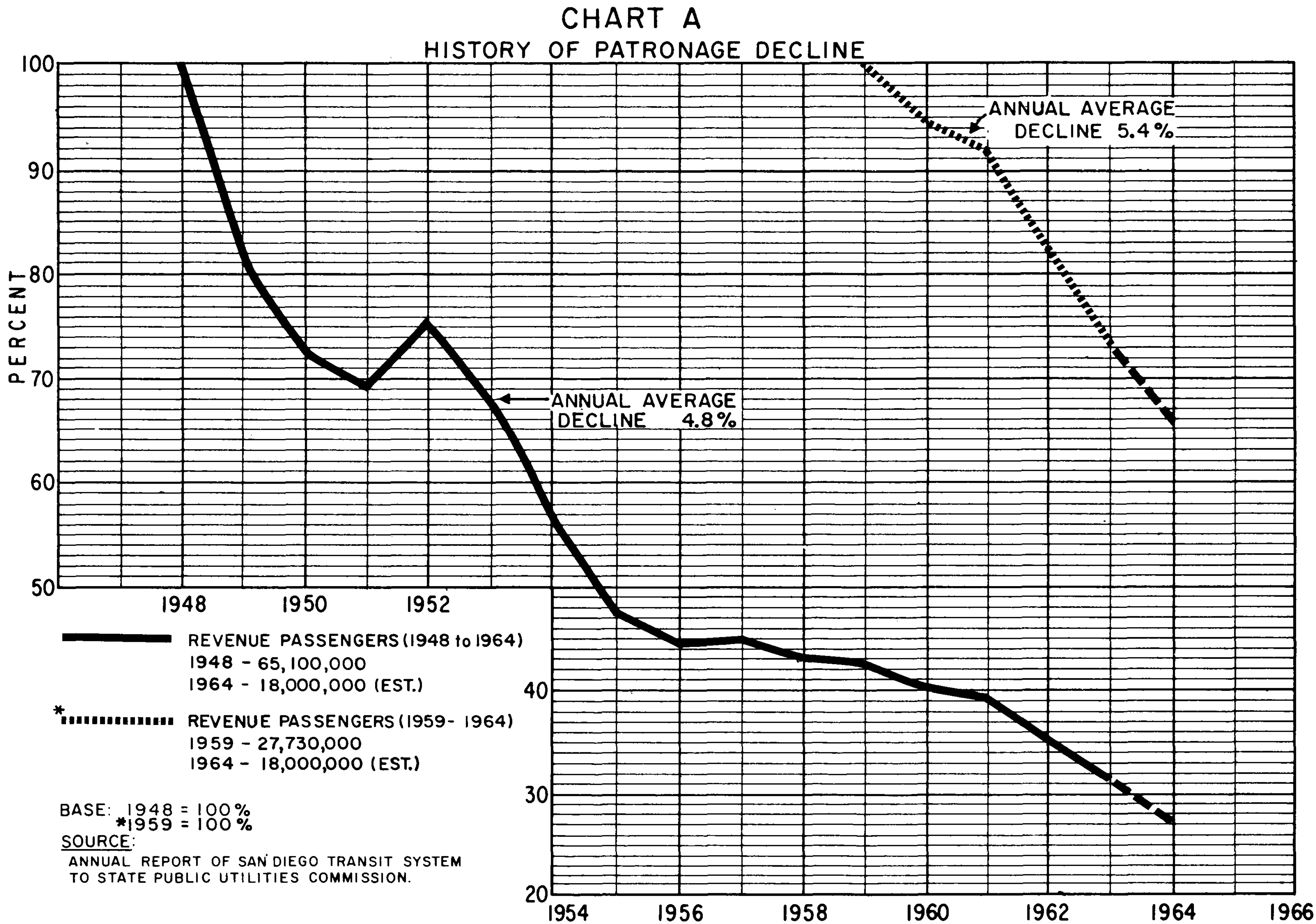
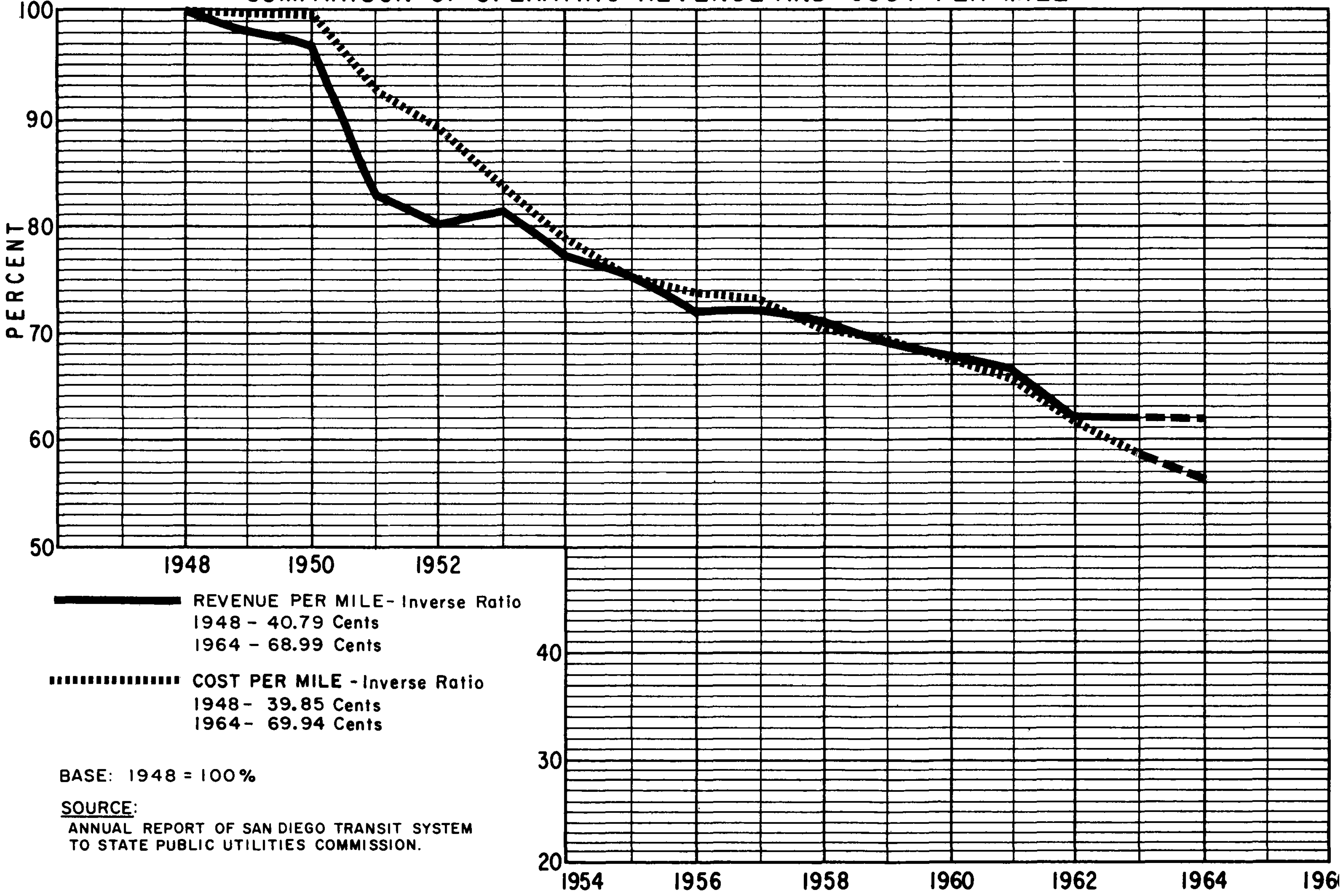


CHART A
HISTORY OF PATRONAGE DECLINE
PERCENT
100
90
80
70
60
50
40
30
20
1948
1950
1952
1954
1956
1958
1960
1962
1964
1966
ANNUAL AVERAGE DECLINE 5.4%
ANNUAL AVERAGE DECLINE 4.8%
REVENUE PASSENGERS (1948 to 1964)
1948 - 65,100,000
1964 - 18,000,000 (EST.)
* REVENUE PASSENGERS (1959- 1964)
1959 - 27,730,000
1964 - 18,000,000 (EST.)
BASE: 1948 = 100%
*1959 = 100%
SOURCE:
ANNUAL REPORT OF SAN DIEGO TRANSIT SYSTEM
TO STATE PUBLIC UTILITIES COMMISSION.

CHART B
COMPARISON OF OPERATING REVENUE AND COST PER MILE



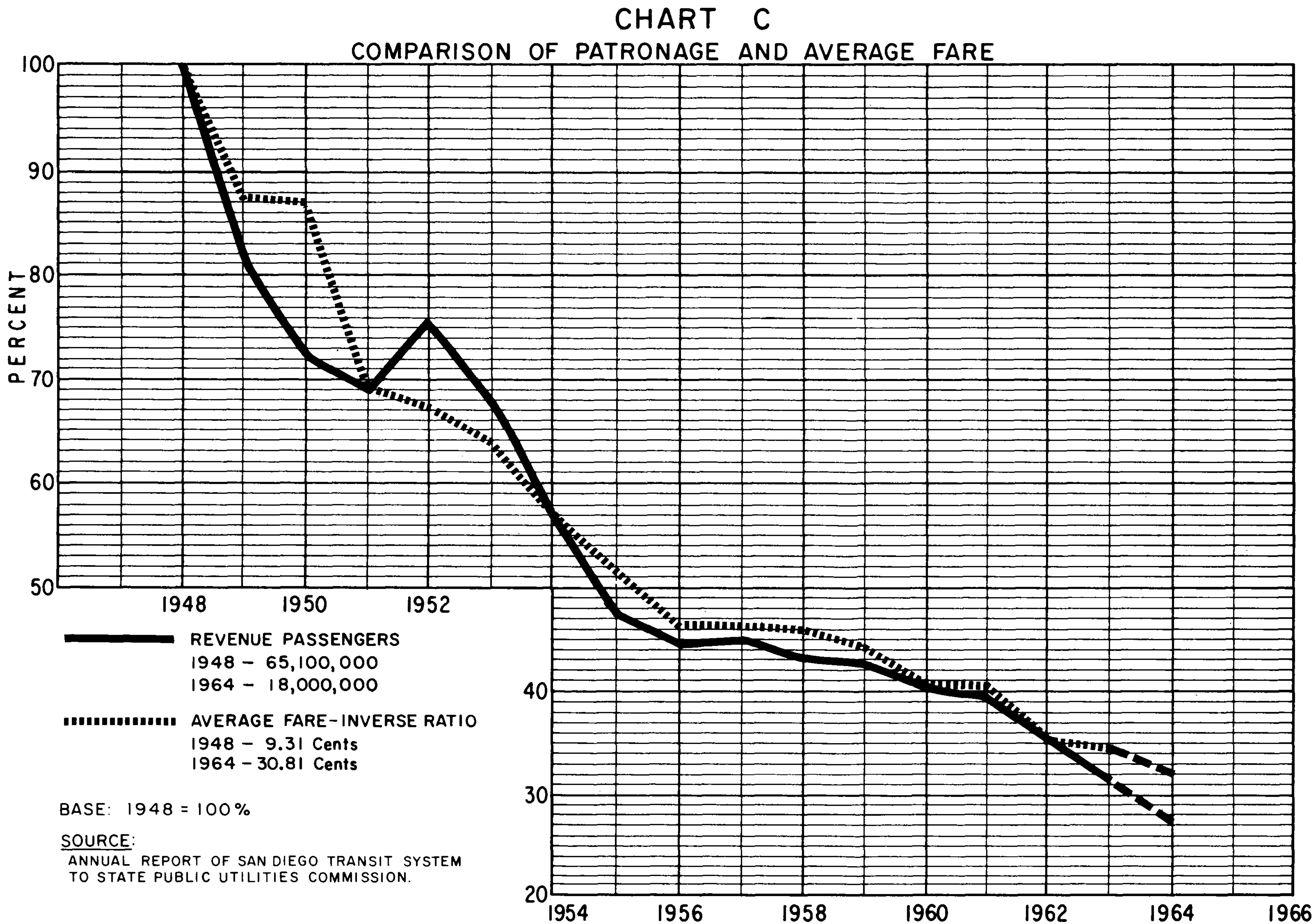


CHART C
COMPARISON OF PATRONAGE AND AVERAGE FARE
PERCENT
100
90
80
70
60
50
40
30
20
1948
1950
1952
1954
1956
1958
1960
1962
1964
1966
REVENUE PASSENGERS
1948 - 65,100,000
1964 - 18,000,000
AVERAGE FARE-INVERSE RATIO
1948 - 9.31 Cents
1964 - 30.81 Cents
BASE: 1948 = 100%
SOURCE:
ANNUAL REPORT OF SAN DIEGO TRANSIT SYSTEM
TO STATE PUBLIC UTILITIES COMMISSION.

CHART D

COMPARISON OF PATRONAGE AND AVERAGE REVENUE PER MILE

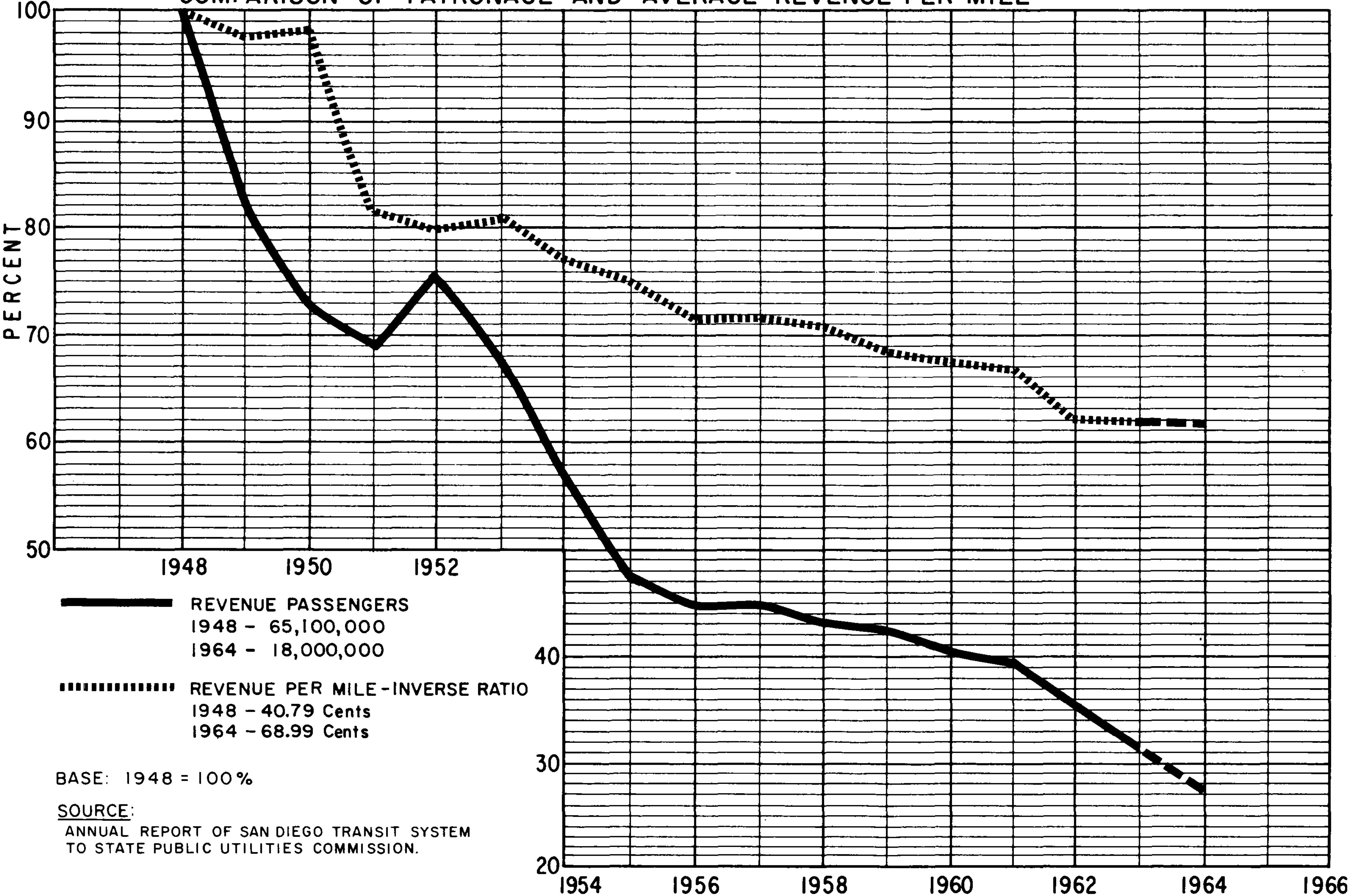
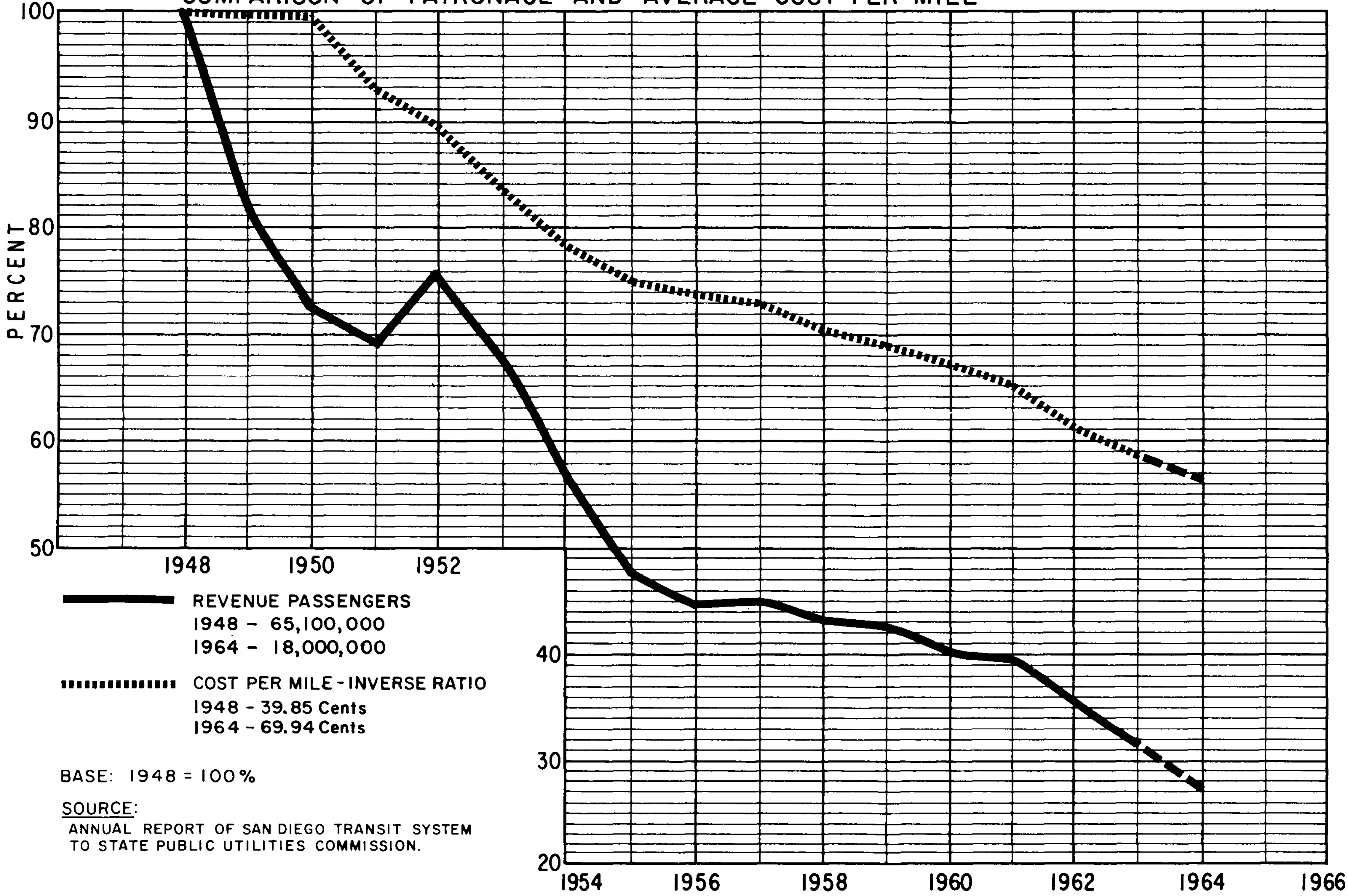


CHART E
COMPARISON OF PATRONAGE AND MILES OPERATED

CHART F

COMPARISON OF PATRONAGE AND AVERAGE COST PER MILE



TABLES

TABLES

TABLE 1

NUMBER OF PASSENGERS

Year	Revenue Passengers (in thousands) Regular	School	Total
1948	61,706	3,394	65,100
1949	49,490	3,491	52,981
1950	43,321	3,583	46,904
1951	41,011	3,748	44,759
1952	45,249	3,877	49,126
1953	40,077	4,186	44,263
1954	32,846	4,074	36,920
1955	26,855	3,918	30,773
1956	24,934	4,126	29,060
1957	24,812	4,403	29,215
1958	23,807	4,278	28,085
1959	23,712	4,018	27,730
1960	22,052	4,128	26,180
1961	21,088	4,387	25,475
1962	19,179	3,682	22,861
1963	17,380	2,888	20,268
1964 *	7,542	1,688	9,230

* First six months only

TABLE 2

OPERATING COST PER MILE

Year	Miles Operated	Operating Expenses *	Average Cost Per Vehicle Mile
1948	14,488,081	5,773,970	.3985
1949	13,196,618	5,229,280	.3962
1950	11,797,861	4,678,060	.3965
1951	11,664,775	5,029,208	.4311
1952	13,029,665	5,828,628	.4473
1953	12,501,564	5,978,750	.4782
1954	11,240,014	5,686,476	.5059
1955	9.943,655	5,284,734	.5315
1956	9,760,731	5,329,838	.5460
1957	9,753,759	5,340,543	.5475
1958	9,612,783	5,450,245	.5669
1959	9,554,554	5,521,338	.5778
1960	9,627,989	5,725,669	.5946
1961	9,394,084	5,748,475	.6119
1962	9,020,490	5,885,264	.6524
1963	8,160,911	5,562,059	.6815
1964	3,958,133	2,768,794	.6994

* For comparative purposes the operating expenses exclude the amortization of railway facilities

TABLE 3

AVERAGE EMPLOYEE COMPENSATION

Year	Average No. of Employees	Total Compensation	Compensation Per Employee
1948	1,034	3,347,146	3,237
1949	930	3,082,324	3,314
1950	806	2,553,845	3,168
1951	794	2,833,060	3,568
1952	821	3,280,136	3,995
1953	831	3,444,142	4,144
1954	754	2,876,348	3,814
1955	725	2,796,918	3,857
1956	711	2,800,791	3,940
1957	693	2,857,434	4,123
1958	686	2,968,961	4,327
1959	674	3,533,096	5,241
1960	671	3,188,971	4,752
1961	655	3,179,582	4,854
1962	651	3,245,008	4,984
1963	600	3,069,638	5,116

TABLE 4

HISTORY OF UNION WAGES (HOURLY)

Effective Date	Operators	Mechanic A	Mechanic B	Mechanic C	Service A	Service B
8/16/51	1.58					
12/1/51		1.91	1.80	1.69	1.53	1.35
3/1/52		1.95	1.83	1.71	1.55	1.36
9/1/52	1.78	2.06	1.93	1.80	1.64	1.45
1/1/53	1.79	2.07	1.94	1.81	1.65	1.46
10/1/53		2.13	2.00	1.87	1.71	1.52
12/1/53	1.88					
1/1/54		2.16	2.03	1.90	1.74	1.55
6/1/54	1.90					
7/1/54		2.18	2.05	1.92	1.76	1.57
12/1/54	2.00					
1/1/55		2.21	2.08	1.95	1.79	1.60
6/1/55	2.04					
12/1/55	2.10					
1/1/56		2.30	2.17	2.04	1.88	1.69
1/1/57		2.34	2.21	2.08	1.92	1.73
6/1/57	2.18					
10/1/57		2.43	2.29	2.16	1.99	1.80
6/1/58	2.28					
10/1/58		2.54	2.40	2.26	2.08	1.88
6/1/59	2.35					
10/1/59		2.65	2.50	2.36	2.17	1.96
12/1/59	2.38					
6/1/60	2.47					
10/1/60		2.75	2.60	2.45	2.25	2.04
6/1/61	2.52					
10/1/61		2.85	2.69	2.54	2.33	2.11
12/1/61	2.56					
6/1/62	2.61					
10/1/62		2.95	2.79	2.63	2.42	2.18
12/1/62	2.65					
6/1/63	2.70					
10/1/63		3.00	2.84	2.68	2.47	2.23
12/1/63	2.75					
1/1/64		3.05	2.89	2.78	2.52	2.28
6/1/64	2.80					
10/1/64		3.13	2.97	2.81	2.60	2.36
12/1/64	2.83					

TABLE 5

HISTORY OF PROFIT AND LOSS

Year	Operating Revenue	Operating Expense	Net Operating Income	Other Income**	Other Expense***	Income Before Income Tax	Federal Income Tax	Net Income
1948	5,908,604	5,800,669	107,935	1,369	7,918	101,386	39,021	62,365
1949	5,492,411	5,314,379	178,032	74,192	33,831	218,393	82,989	135,404
1950	4,902,064	4,789,487	112,577	138,915	39,865	211,627	50,636	160,991
1951	5,847,319	5,153,311	694,008	170,871	46,504	818,375	372,500	445,875
1952	6,654,425	5,966,678	687,747	171,543	48,865	810,425	470,000	340,425
1953	6,320,561	6,116,714	203,847	87,924	58,961	232,807	152,970	79,837
1954	5,988,251	5,818,011	170,240	86,892	56,733	200,399	140,541	59,858
1955	5,472,350	5,419,988	52,362	108,092	34,922	125,532	91,874	33,658
1956	5,650,619	5,455,300	195,319	102,415	24,931	272,803	162,229	110,574
1957	5,718,915	5,465,082	253,833	103,432	38,519	318,746	161,425	157,321
1958	5,719,409	5,523,578	195,831	52,941	59,158	189,614	62,790	126,824
1959	5,893,765	5,556,168	337,597	83,040	54,416	366,221	132,817	233,404
1960	6,016,196	5,792,645	223,548	93,382	98,166	218,767	19,014	199,753
1961	5,590,909	5,756,188	194,721	22,511	121,605	95,627	232	95,395
1962	6,138,597	5,906,566	232,031	48,221	102,226	178,026	3,404	174,622
1963	5,586,432	5,585,516	916	37,085	75,404	(37,403)	(9,309)	(28,094)
1964*	2,731,175	2,807,294	(76,119)	40,525	28,755	(64,349)	-	(64,349)

* First six months only
** Principally gain on sale of fixed assets
*** Principally interest on equipment obligations

TABLE 6

AVERAGE FARE

Year	Number of Passengers (in thousands)	Regular Passenger Revenue Collected (in thousands)	Average Fare
1948	61,706	5,742	.0931
1949	49,490	5,302	.1071
1950	43,321	4,687	.1082
1951	41,011	5,634	.1374
1952	45,249	6,402	.1415
1953	40,077	6,019	.1502
1954	32,846	5,639	.1717
1955	26,855	5,105	.1901
1956	24,934	5,238	.2101
1957	24,812	5,254	.2118
1958	23,807	5,158	.2167
1959	23,712	5,259	.2218
1960	22,052	5,365	.2433
1961	21,088	5,249	.2489
1962	19,179	5,302	.2764
1963	17,380	4,861	.2797
1964 *	7,542	2,324	.3081

* First six months only

TABLE 7

HISTORY OF TRANSIT FARES

Date	Year	1 Zone	Each Additional Zone	Tokens	Weekly Passes	Monthly School Passes
January 30	1948	10¢ Good 2 Zones	5¢	6 for 50¢	$1.50	$1.00
November 19	1948	10¢ " " "	5¢	No tokens	1.75	1.50
February 5	1951	13¢ " " "	5¢	2 for 25¢	2.25	1.50
August 10	1953	15¢ " " "	5¢	7 for $1.00	2.75	1.80
August 9	1954	17¢ " " "	5¢	16¢-5 for 80¢	3.25	2.10
September 26	1955	20¢ " " "	5¢	17 1/2-4 for 70¢ (50 for $8.75)	3.85	2.10
November 3	1955	Half fare for children 5 thru 11 yrs. 5¢ for 2 additional zones				
March 28	1960	25¢ Good 2 Zones	7¢	5 for $1.00		10¢ per ride
December 11	1961	25¢ " " "	8¢	Abolished		15¢ per ride
November 25	1963	30¢ " " "	8¢	6 for $1.50 (50 for $12.50)		Same

TABLE 8

COMPARISON OF AVERAGE REVENUE

AND COST PER MILE

Year	Miles operated (in thousands)	Average cost per Mile	Average revenue per mile
1948	14,488	.3985	.4079
1949	13,197	.3962	.4162
1950	11,798	.3965	.4155
1951	11,665	.4311	.5017
1952	13,030	.4473	.5107
1953	12,502	.4782	.5056
1954	11,240	.5059	.5327
1955	9,944	.5315	.5503
1956	9,761	.5460	.5789
1957	9,754	.5475	.5863
1958	9,613	.5669	.5949
1959	9,555	.5778	.6168
1960	9,623	.5946	.6248
1961	9,394	.6119	.6335
1962	9,020	.6524	.6806
1963	8,161	.6815	.6845
1964 *	3,959	.6994	.6899

* First six months only

9

OF THE SAN DIEGO TRANSIT SYSTEM

or fare structure and a
1963 rate of 5.4 per cent per annum)

1968	1969
14,250	13,450
4,040	3,815
270	275
50	50
4,360	4,140
4,100	4,180
275	275
80	75
135	130
250	180
930	940
5,770	5,780
(1,410)	(1,640)
250	180
60	55
(1,100)	(1,405)
.39	.41
4,950,000	4,450,000

BASIS FOR PROJECTIONS (Comparable to Table 17)

(1) Patronage is projected on the assumption that the decline in passengers would continue at the 1959 to 1963 rate (5.4 per cent per annum for regular passengers and 6.5 per cent per annum for school passengers) except for 1964 which is projected on the basis of the actual results during the first six months.

(2) Passenger revenue is projected on the assumption that there would be no change in the present fare structure.

(3) Special bus revenue (which included Charter service and school and mail carrier contract service) and advertising are projected on the basis of the actual experience from 1959 to 1963.

(4) Operating expenses are estimated on the assumption:

- Service will not be reduced below current service mileage of approximately 7,895,000 miles

- Labor costs are estimated to increase by four per cent per annum

- Operating taxes and other operating expenses are estimated to increase by one per cent per annum

- Depreciation is projected on the assumption that the Company will not replace existing equipment and will continue using a ten year life with a two thousand dollar salvage allowance

TABLE

ESTIMATED NET OPERATING LOSS

(Assumes no change in service
patronage decline at the 1959 to

(In thousands)		1964	1965	1966	1967
PATRONAGE	(1)	18,000	17,000	16,000	15,100
OPERATING REVENUES					
Passenger revenue	(2)	5,070	4,795	4,520	4,260
Special bus revenue	(3)	250	255	260	265
Advertising		50	50	50	50
		5,370	5,100	4,830	4,575
OPERATING EXPENSES	(4)				
Labor		3,790	3,865	3,940	4,020
Operating taxes		260	260	265	270
Franchise fee		100	95	90	85
Management fee		170	160	150	145
Depreciation		385	380	370	310
Other operating expense		895	905	915	920
		5,600	5,665	5,730	5,750
NET OPERATING LOSS		(230)	(565)	(900)	(1,175)
ADD BACK					
Depreciation		385	380	370	310
Management fee disallowed by PUC		95	85	75	70
FUNDS GENERATED FROM OPERATIONS		250	(100)	(455)	(795)

Shown below is the approximate basic fare <u>or</u> service level required to offset the indicated operating loss (for illustrative purposes only)

	1964	1965	1966	1967
Approximate basic fare level (cents)	.31	.33	.35	.37
Approximate service level (miles)	7,550,000	6,800,000	6,050,000	5,450,000

TABLE 10

HISTORY OF MANAGEMENT FEE AND DIVIDENDS

Year	Management Fee	Dividends	Total
1948	78,498	18,725	97,223
1949	176,772	150,000	326,772
1950	159,061	100,000	259,061
1951	187,419	100,000	287,419
1952	211,633	300,000	511,633
1953	201,616	200,000	401,616
1954	191,647	200,000	391,647
1955	176,170	200,000	376,170
1956	181,518	150,000	331,518
1957	183,567	150,000	333,567
1958	183,582	150,000	333,582
1959	188,812	180,000	368,812
1960	192,485	185,000	377,485
1961	190,527	150,000	340,527
1962	196,158	135,000	331,158
1963	179,591	30,000	209,591

TABLE 11

HISTORY OF CAPITAL EXPENDITURES AND

COMPANY DEPRECIATION CHARGES

Year	Purchase of Buses: No.	Purchase of Buses: Unit Cost	Purchase of Buses: Total	Other Operating Property	Non-Operating Property	Total Capital Expenditures	Annual Depreciation Charge
1949	45	19,953	897,885	78,689		976,574	362,691
1950	20	19,463	389,266	17,783		407,049	407,987
1951	40	20,016	800,655	54,273		854,928	468,846
1952	40	20,590	823,605	52,036		875,641	527,047
1953	20	21,120	422,409	31,265		453,674	544,391
1954	-	-	-	24,685		24,685	588,774
1955	-	-	-	25,017		25,017	515,551
1956	12	25,476	305,721	26,004		331,725	482,538
1957	22	27,017	594,376	85,614		679,990	384,572
1958	22	28,300	622,658	39,483		662,141	397,349
1959	30	29,643	889,318	24,519	61,882	975,719	362,337
1960	32	30,564	978,066	265,370	72,806	1,316,242	401,452
1961	-	-	-	30,975	25,985	56,960	417,235
1962	-	-	-	5,543		5,543	386,223
1963	1	33,670	33,670	3,785	50,727	88,182	388,378
	284		6,757,629	765,041	211,400	7,734,070	6,635,371
						EXPENDITURES EXCEED DEPRECIATION	1,098,699
							$7,734,070

12

OF FUNDS

1954	1955	1956	1957	1958	1959	1960	1961	1962	1963
59,858	33,658	110,574	157,321	126,824	233,404	199,753	95,395	174,622	(28,094)
588,774	515,551	482,538	384,572	397,349	362,337	401,452	417,235	386,223	388,378
78,786	65,134	64,611	64,457	59,514					
1,306	1,307	1,306	1,307	1,306	1,251	1,250	1,250	1,251	1,250
728,724	615,650	659,029	607,657	584,993	596,992	602,455	513,880	562,096	361,534
25,370	20,071	5,069	31,400	9,531	16,775	34,607	18,684	17,158	20,125
			269,775	239,695	569,715	700,690			
		22,982	30,291		43,710				17,486
		223,000	155,000	288,000	146,000			133,139	41,861
754,094	635,721	910,080	1,094,123	1,122,219	1,373,192	1,337,752	532,564	712,393	441,006
232,000	73,000					255,000	85,000		
					61,882	72,806	25,985		50,727
24,685	25,017	331,725	679,990	662,141	913,837	1,243,436	30,975	5,543	37,455
200,000	200,000	150,000	150,000	150,000	180,000	185,000	150,000	135,000	30,000
463,027	355,333	40,628					454,898	455,269	383,065
50,191	58,756		138,780	94,825		14,795	112,403	21,750	
969,903	712,106	522,353	968,770	906,966	1,155,719	1,771,037	859,261	617,562	501,247
(215,809)	(76,385)	387,727	125,353	215,253	217,473	(433,285)	(326,697)	94,831	(60,241)

TABLE

SOURCE AND APPLICATION

	1949	1950	1951	1952	1953
Funds were provided by:					
Net income	135,404	160,991	445,875	340,425	79,837
Add back non-cash expenses:					
Depreciation	362,691	407,987	468,846	527,047	544,391
Amortization of railway - net	46,017	72,345	85,021	98,968	98,882
Organization expense	11,897	1,361	1,388	1,684	1,307
	556,009	642,684	1,001,130	968,124	724,417
Book value of fixed assets sold	28,671	172,673	50,996	52,421	2,244
Increase in long-term debt	505,866	28,866	286,090	229,000	
Other assets and liabilities	67,975		321,765	153,016	
Received from affiliated companies					
	1,158,521	844,223	1,659,981	1,402,561	726,661
Funds were applied to:					
Advanced to affiliated companies	126,300	112,000	475,000		308,700
Cost of removing rail facility	56,696	119,824	108,086		
Capital investment -					
non-operating					
operating	976,574	407,049	854,928	875,641	453,674
Dividends	150,000	100,000	100,000	300,000	200,000
Decrease in long-term debt					157,050
Other assets and liabilities		3,109			219,463
	1,309,570	741,982	1,538,014	1,175,641	1,338,887
Increase (decrease) in cash	(151,049)	102,241	121,967	226,920	(612,226)

TABLE 13

INTEREST ON INTERCOMPANY ADVANCES

Year	Average Loan Outstanding	Interest on Average Loan at 4% Per Annum	Actual Interest Received	Increase (Decrease)
1948	65,000	2,600	1,344	1,256
1949	191,300	7,652	7,898	(246)
1950	247,300	9,892	13,732	(3,840)
1951	540,800	21,632	21,900	(268)
1952	778,300	31,132	31,131	1
1953	907,650	36,306	26,844	9,462
1954	993,000	39,720	32,654	7,066
1955	957,500	38,300	30,864	7,436
1956	904,500	36,180	28,820	7,360
1957	780,500	31,220	24,915	6,305
1958	589,000	23,560	19,785	3,775
1959	357,500	14,300	11,850	2,450
1960	432,500	17,300	6,187	11,113
1961	690,000	27,600	1,237	26,363
1962	778,000	31,120	-	31,120
1963	786,000	31,440	-	31,440
		399,954	259,161	140,793

TABLE 14

DEBT SERVICE REQUIREMENTS

For each million dollars of debt
For 20 year Revenue Bonds at 3.6% interest

	Annual Requirement		
	Principal	Interest	Total
1st year	50,000	36,000	86,000
2	50,000	34,200	84,200
3	50,000	32,400	82,400
4	50,000	30,600	80,600
5	50,000	28,800	78,800
6	50,000	27,000	77,000
7	50,000	25,200	75,200
8	50,000	23,400	73,400
9	50,000	21,600	71,600
10	50,000	19,800	69,800
11	50,000	18,000	68,000
12	50,000	16,200	66,200
13	50,000	14,400	64,400
14	50,000	12,600	62,600
15	50,000	10,800	60,800
16	50,000	9,000	59,000
17	50,000	7,200	57,200
18	50,000	5,400	55,400
19	50,000	3,600	53,600
20	50,000	1,800	51,800
	1,000,000	378,000	1,378,000

TABLE 15

DEBT SERVICE REQUIREMENTS

For each million dollars of debt
if a lease purchase agreement should be entered into with the
Board of Directors of the Retirement Fund based upon a 20 year
period with a 5% interest factor

	Annual Lease Payment		
	Principal	Interest	Total
1st year	50,000	50,000	100,000
2	50,000	47,500	97,500
3	50,000	45,000	95,000
4	50,000	42,500	92,500
5	50,000	40,000	90,000
6	50,000	37,500	87,500
7	50,000	35,000	85,000
8	50,000	32,500	82,500
9	50,000	30,000	80,000
10	50,000	27,500	77,500
11	50,000	25,000	75,000
12	50,000	22,500	72,500
13	50,000	20,000	70,000
14	50,000	17,500	67,500
15	50,000	15,000	65,000
16	50,000	12,500	62,500
17	50,000	10,000	60,000
18	50,000	7,500	57,500
19	50,000	5,000	55,000
20	50,000	2,500	52,500
	1,000,000	525,000	1,525,000

TABLE 16

DEBT SERVICE REQUIREMENTS

For each million dollars of debt
For 20 year General Obligation Serial Bonds at 3.2% interest

	Annual Requirement			*Approximate Tax Rate
	Principal	Interest	Total	Required
1st year	50,000	32,000	82,000	.0082
2	50,000	30,400	80,400	.0080
3	50,000	28,800	78,800	.0079
4	50,000	27,200	77,200	.0077
5	50,000	25,600	75,600	.0076
6	50,000	24,000	74,000	.0074
7	50,000	22,400	72,400	.0072
8	50,000	20,800	70,800	.0071
9	50,000	19,200	69,200	.0069
10	50,000	17,600	67,600	.0068
11	50,000	16,000	66,000	.0066
12	50,000	14,400	64,400	.0064
13	50,000	12,800	62,800	.0063
14	50,000	11,200	61,200	.0061
15	50,000	9,600	59,600	.0060
16	50,000	8,000	58,000	.0058
17	50,000	6,400	56,400	.0056
18	50,000	4,800	54,800	.0055
19	50,000	3,200	53,200	.0053
20	50,000	1,600	51,600	.0052
	1,000,000	336,000	1,336,000	

* Based upon a one billion dollar assessed valuation

17

FROM OPERATIONS UNDER PUBLIC OWNERSHIP

or fare structure and a)
1963 rate of 5.4 per cent per annum)

1969
13,450
4,015
275
50
4,340
4,180
130
75
945
5,330
(990)

ASSUMPTIONS (Comparable to Table 9)

(1) Patronage is estimated on the assumption that the decline in passengers will continue at the 1959 to 1963 rate (5.4 per cent per annum for regular passengers and 6.5 per cent per annum for school passengers).

(2) Passenger revenue is estimated on the assumption:

- There will be no increase or decrease in the current fare structure
- Transit service will be provided to other cities on a contractual basis and these lines will not generate sufficient passenger revenue to satify the contractual obligations by an estimated 200,000 dollars per year

(3) Special bus revenue (which includes charter service and school and mail carrier contract service) and advertising are estimated on the basis of the actual experience from 1959 to 1963

(4) Operating expenses are estimated on the assumption:

- The service level will continue at the present level of approximately 7,895,000 miles
- Labor cost increases four per cent per annum compounded
- Operating tax and other operating expense increases one per cent per annum compounded
- General management would be paid approximately 75,000 dollars per annum

(5) No provision is made for: (Refer to Table 19)

- Capital expenditures
- Lease payments
- Debt Service Retirement

TABLE

ASSUMPTION ONE - ESTIMATED FUNDS GENERATED

(Assumes no change in service
(patronage decline at the 1959 to

(In thousands)		1965	1966	1967	1968
PATRONAGE	(1)	17,000	16,000	15,100	14,250
OPERATING REVENUES					
Passenger revenue	(2)	4,995	4,720	4,460	4,240
Special bus revenue	(3)	255	260	265	270
Advertising	(3)	50	50	50	50
		5,300	5,030	4,775	4,560
OPERATING EXPENSES	(4)				
Labor		3,865	3,940	4,020	4,100
Operating taxes		120	120	125	125
Management salaries		75	75	75	75
Other operating expenses		905	915	925	935
		4,965	5,050	5,145	5,235
FUNDS GENERATED FROM OPERATIONS	(5)	335	(20)	(370)	(675)

FUNDS GENERATED

PUBLIC OWNERSHIP

1969
20,700
5,580
275
50
5,905
4,180
130
75
975
5,360
545

ASSUMPTIONS

This assumes that the public agency implements the following program:

- Reduce the basic fare to 25 cents for any two adjoining zones plus 10 cents for each additional zone traveled, eliminate tokens, and continue the school fare at 15 cents per ride

- Replace all busses over fourteen years old with new busses and operate new busses during base periods

- Obtain competent new management

- Engage in a comprehensive program of public relations to inform the community of the advantages of the new transit system

- Review existing routes and service for possible improvements. The extent to which service changes should be incorporated is beyond the scope of this study

(1) Passenger revenue is estimated as follows

- First year of operation is estimated to generate the same passenger revenue as 1964

- During the second and third years of operations passenger revenue is estimated to increase by two per cent per annum compounded

- During the fourth and fifth year of operations passenger revenue is estimated to increase by one per cent per annum compounded

- Assumes that transit service will be provided to other cities on a contractual basis and that these lines will not generate sufficient passenger revenue to satisfy the contractual obligation by an estimated 200,000 dollars per year

(2) Special bus revenue (which includes charter service and school and mail carrier service) and advertising are estimated on the basis of the actual experience from 1959 to 1963

TABLE

ASSUMPTION TWO - ESTIMATED

FROM OPERATIONS UNDER

(In thousands)		1965	1966	1967	1968
PATRONAGE		19,500	19,900	20,300	20,500
OPERATING REVENUES					
Passenger revenue	(1)	5,270	5,370	5,475	5,525
Special bus revenue	(2)	255	260	265	270
Advertising	(2)	50	50	50	50
		5,575	5,680	5,790	5,845
OPERATING EXPENSES	(3)				
Labor		3,865	3,940	4,020	4,100
Operating taxes		120	120	125	125
Management salaries		75	75	75	75
Other operating expenses		935	945	955	965
		4,995	5,080	5,175	5,265
FUNDS GENERATED FROM OPERATIONS	(4)	580	600	615	580

(3) Operating expenses are estimated on the assumption:

- The service level will continue at the present level of approximately 7,895,000 miles
- Labor cost increases four per cent per annum compounded
- Operating tax and other operating expense increases one per cent per annum compounded (an additional 30,000 dollars per year is included in operating expenses for public relations)
- General management would be paid approximately 75,000 dollars per annum

(4) No provision is made for: (Refer to Table 19)

- Capital expenditures
- Lease payments
- Debt service retirement

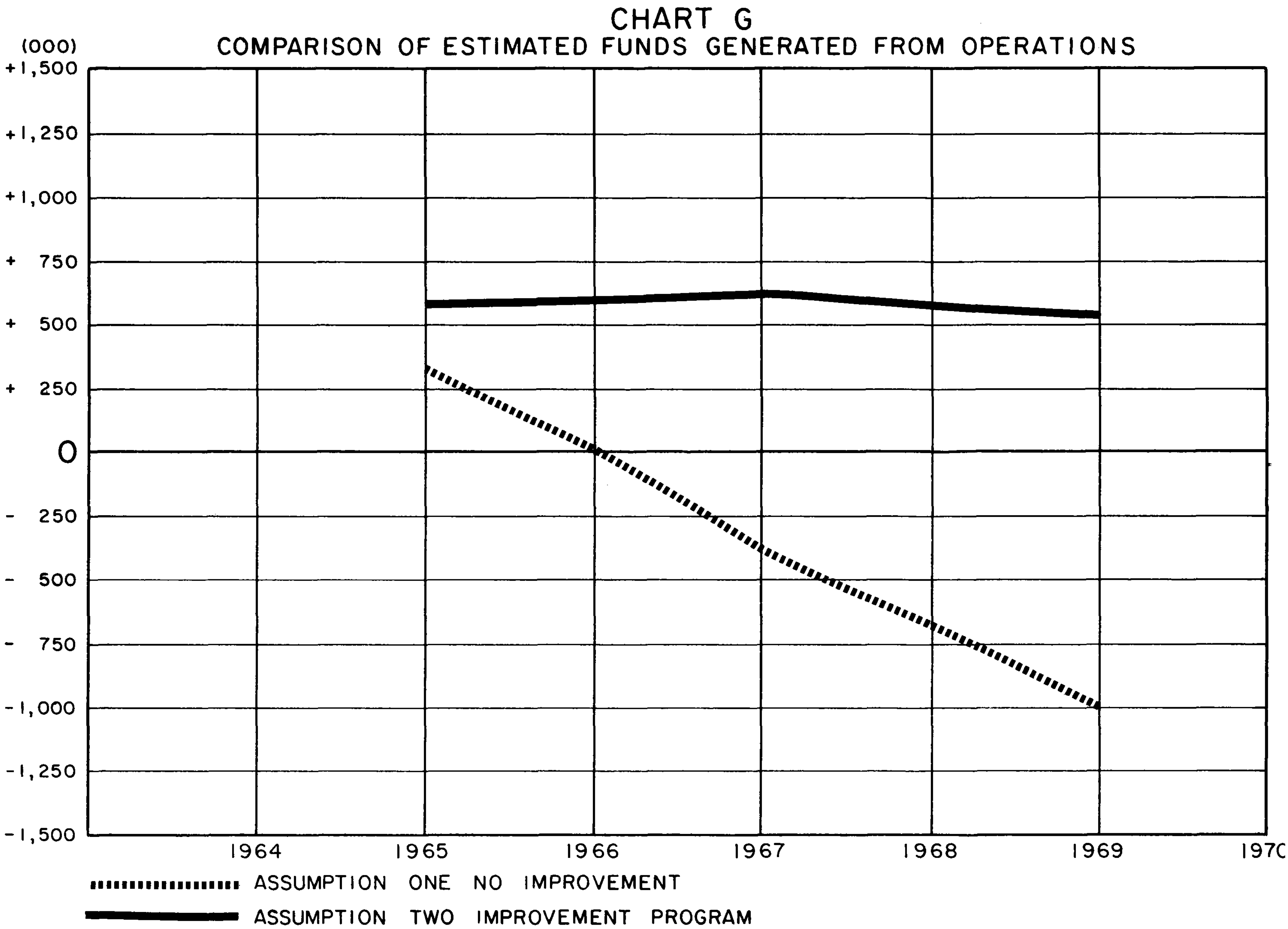


CHART G
COMPARISON OF ESTIMATED FUNDS GENERATED FROM OPERATIONS
(000)
+1,500
+1,250
+1,000
+ 750
+ 500
+ 250
0
- 250
- 500
- 750
-1,000
-1,250
-1,500
1964
1965
1966
1967
1968
1969
1970
ASSUMPTION ONE NO IMPROVEMENT
ASSUMPTION TWO IMPROVEMENT PROGRAM

REQUIREMENTS

Total Known Fund Surplus (Requirement)	Known Cumulative Fund Surplus (Requirement)	* Acquisition Debt Service Requirement	Total Fund Surplus (Requirement)	Total Cumulative Fund Surplus (Requirement)
335,000	335,000			
(20,000)	315,000			
(370,000)	(55,000)			
(675,000)	(730,000)			
(990,000)	(1,720,000)			
365,000	365,000			
389,500	754,500			
139,000	893,500			
108,500	1,012,000			
78,000	1,080,000			

TABLE

FUND

ASSUMPTION ONE

(No Improvement)

Year	Funds Generated From Operations	Revenue Bond Debt Service Initial Bus Replacement	Annual Bus Outlay Replacement
1965	335,000		
1966	(20,000)		
1967	(370,000)		
1968	(675,000)		
1969	(990,000)		

ASSUMPTION TWO

(Improvement Program)

Year	Funds Generated From Operations	Revenue Bond Debt Service Initial Bus Replacement	Annual Bus Outlay Replacement
1965	580,000	215,000	
1966	600,000	210,500	
1967	615,000	206,000	270,000
1968	580,000	201,500	270,000
1969	545,000	197,000	270,000

* Acquisition price not known - for calculating purposes see Table 14, 15, and 16